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Europe's new deal: a new version of an expiring deal

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Abstract The article elaborates upon the reasons of institutional default (Part 1) and, in turn, upon the implications of economic default in Europe (Part 2). In relation to the *reasons of institutional default*, the paper cast light on three broadly interrelating elements: First, the conceptual issue that the EU has been operating as a community without democracy, which was clearly illustrated in the case of the economic crisis (Sect. 2.1). Second, the structural issue that EU democracy, where applicable, was deprived of politics, in the sense that founding ideology has been completely superseded by the inflexible dominance of free market (Sect. 2.2). And, third, the technical issue that EU politics, where applicable, especially after the Euro-zone launching, lacked principles that could keep the community intact (Sect. 2.3). In relation to the *implications of economic default*, the paper reveals three salient features. First, the political impact, namely that Europe seems to be puzzled by a sharp division between stability/cohesion and growth/monetarism, which mutates the essential mainstays of a Community (Sect. 3.1). Second, the social impact, i.e. increase of discrepancies within the EU, mostly as a result of diminution of labour rights and the correlating destruction of cohesion (Sect. 3.2). And, third, the psychological impact, which revolves around two antithetical poles, namely stereotyping and nationalism (Sect. 3.3). The epilogue reflects the view that the current depression is both a disaster and an opportunity for Europe, therefore the old messianic deal of the European integration needs an afresh look within the frame of democratic legitimacy and accountability and with an essential preservation of social state.

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1 Prologue

The day following François Hollande's great victory in French presidential elections, the left-leaning news magazine *Le Nouvel Observateur* denominated his election as the hope for a "New Deal à la française". In fact Europe has a legitimate ground to consider the current status of financial crisis as the European equivalent to the mid-war crisis in the US. Irrespective of the soundness of the positive analyses given about the factual surroundings in the 1920's, the similarities before 2008 in Europe are evident: political stability, a general feeling of social prosperity for a glooming middle class, comfortable and wide circulation of money through loose bank lending policies, relatively small part of income coming from labour, weak control over markets due to lack of effective mechanisms and the lack of institutional means of direct intervention to support member states at the level of the European Central Bank (ECB).[1] After the explosion of the crisis, facts are getting increasingly similar: huge expansion of unemployment,[2] increase of suicides, elimination of middle class and financial depression eventually resulting in psychological depression.[3]

Franklin Roosevelt's New Deal has been so widely cited in the last 4 years in Europe, in a way that one might reasonably expect Europe to turn to legislation resembling to the 100-day reform package. This is partly true. New Deal measures aiming at the stability of family and the prevention of bank bankruptcies have been inspirational for European states, such as legislation for the protection of families with excessive bank loans (*Home Owners Loans Act*), the protection of family bank accounts (*Federal Deposit Insurance Corporation*), the introduction of transitory benefits for unemployed workers (*Civilian Conservation Corps*, apart from the employment with the public sector) and the financial injection on collapsing banks to improve their cash flows (*Reconstruction Finance Corporation*).

However, the essence of the growth strategy of the New Deal programme has not been transplanted to Europe, namely the provisions for the creation of infrastructures (*Public Works Administration* and *Works Progress Administration Act*), the employment of redundant workers in large scale public works (*Civil Works Administration*), the strengthening of the collective bargaining guarantees for workers (*National Labour Relations Act*, known as *Wagner Act*) and the intensification of social security and public health schemes (*Social Security Act*).[4]

[1] See European Central Bank (2010), Zilioli and Selmayr (2007) and Martin and Texeira (2000).

[2] Indicatively, 26 % in Spain and 26.8 % in Greece in October 2012, as compared to 21.7 and 14.7 % respectively in January 2011. The yearly rates were 20.1 and 12.6 % in 2010 and 21.6 and 17.7 % in 2011 respectively, see OECD, 10.1787/2074384x-table.6. The youth unemployment rates in 2011 for youth labour force (15–24) were 46.4 % in Spain and 44.11 % in Greece, see OECD 10.1787/20752342-table.2.

[3] See Galbreith (1997), chaps. 7 and 8.

[4] For the relevant New Deal legislation and the constitutional struggle that followed see White (2000), esp. pp. 167–197 and Kushman (1998).

Over and above, New Deal appears now in Europe as the symbolic allusion of a successful project to get away with what was considered to be at the time an unprecedented crisis in the economy. It suggests a liberal welfare state, as opposed to a social-democratic welfare state or a post-industrial conservative-corporatist welfare state.[5] Of course now, unlike mid-war, the main venue of the crisis is Europe and the main cause to blame is not the stock market but the overall systemic asymmetry in economy, i.e. financial and production inequalities among the states of the Union, even within the states. This is why the crisis, although triggered in the US, was mainly influential in Europe where structural deficiencies were much more evident. Banking, debt and deficit problems became all more intensive in Europe because of the exorbitant level of loans by certain states in order to finance mainly social state goals and by individuals to sustain consumption needs. Reasonably, ephemeral prosperity undermined the right of future generations to enjoy an adequate level of wealth.

The present paper will try to cast light exactly upon these asymmetries. What is suggested is that the contemporary crisis in Europe is not merely economic but came up because of the institutional imbalance within the European Union, especially the Eurozone. Monetary Union seems today in retrospect as a project that was due to expire as stood in its original form: It was based on a community without democracy, then on democracy without politics and, eventually, on politics without principles. It all sum up in an *institutional* default (Part 1) that brought along *political*, *social* and *psychological* consequences far beyond the traditional boundaries of economy (Part 2). As such, the position of the study is that trying to deal with such a multilevel conundrum by simply using tools of economy is entirely unrealistic and vain. A whole restructuring, both in terms of the institutional architecture, as well as the substantive rules to secure sustainable and balanced economic and social growth, is required that would bring European states a step closer to substantive unity; otherwise a rational choice would be disintegration.[6]

2 The reasons of institutional default

2.1 The conceptual issue: community without democracy

Joseph Weiler argued that the European project was in the first place messianic, whereby mobilising force and principle legitimising feature was based on the nobility of the cause of peace and prosperity.[7] This is partly true if one takes into account the concessions towards democratic legitimacy and accountability, the lack

[5] See Esping-Andersen (1990).

[6] See on this point, Overtveldt (2011), pp. 183–186.

[7] Weiler (2011a), “60 years…” and (Weiler 2011b), “The Political and Legal Culture of European integration…”. Former Chancellor Helmut Kohl called the euro a “guarantee for peace” throughout the historically divided and war-plagued continent (Valentina Pop in *EU Observer*, 6 May 2010).

of a clear vision as to where Europe goes, even after the introduction of the single currency, and the repeated devaluation of the rule of law. Even if this is true, the question remains as to why the project failed. Amartya Sen, the famous Nobel laureate and professor of economics and philosophy, argued that there are two reasons why the intentions of the European Union's policy makers have produced "a world of misery, chaos and confusion". First, in the absence of fiscal union, austerity policy, combined with the rigidities of Europe's monetary union, has hardly been a model of cogency and sagacity. Second, the legitimate intention conflicts with a more urgent priority, namely the preservation of a democratic Europe that is concerned about societal well-being; "these are values for which Europe has fought, over many decades".[8]

The problem of the so-called democratic deficit in the European Union has been largely elaborated by the literature and was once again confirmed in the course of the financial crisis.[9] Indeed, the most striking example of lack of democratic legitimacy and adhesion to the Union's legality was the treatment of the debt and deficit problem of Greece. This pathology seems to have been treated on a European level either outside the Union or by unrepresented EU authorities. Thus, relevant decisions have been taken by the heads of governments of the most powerful European states, mostly over dinners, as always happened from Maastricht onwards, and then passed on to the rest of the executives and the EU itself.

The EU organs were almost invisible in the whole process, notably the European Parliament, the only truly representative organ of the Union, which remained emphatically silent for more than 3 years. Only on 12 June 2012, did the Parliament pursuant to Rule 120 of the Rules of Procedure issue a resolution addressed to the Commission on new proposals to tackle the systemic financial crisis and stimulate the real economy through investment for growth and development.[10] Amazingly, the Parliament belatedly discovered that "the austerity policies and fiscal measures imposed on states with sovereign debt issues have caused additional social crises in conjunction with job losses, the closure of businesses, rising unemployment,

[8] *New York Times*, 22 May 2012.

[9] See Chryssochoou (2000), Andersen and Eliassen (1996) and Majone (1998). Particularly in relation to the deficit as regards the introduction of the common currency see Mancini (2000), chapter 7. The most prophetic paper on the issue of deligitimation of political government in a state of financial crisis within capitalism was offered by Habermas (1973), esp. Part II. The Treaty of Lisbon has enhanced some of the traditional means of direct democracy within representation, namely encouragement on wide circulation of public ideas ("the institutions shall, by appropriate means, give citizens and representative associations the opportunity to make known and publicly exchange their views in all areas of Union action", Article 8B para. 1), constant dialogue with interest parties ("The institutions shall maintain an open, transparent and regular dialogue with representative associations and civil society", Article 8B, para 2), public consultation in the formation of policies ("The European Commission shall carry out broad consultations with parties concerned in order to ensure that the Union's actions are coherent and transparent", Article 8B para. 3) and public legislative initiatives ("not less than one million citizens who are nationals of a significant number of Member States may take the initiative of inviting the European Commission, within the framework of its powers, to submit any appropriate proposal on matters where citizens consider that a legal act of the Union is required for the purpose of implementing the Treaties", Article 8B para 4). However, direct democracy modules requires a communitarian mentality of *demos,* which is not as yet widely acknowledged.

[10] B7-0336/2012.

increased living costs, reduced lending by banks and a high incidence of suicide among people whose businesses have failed, and persistent recession is destroying market confidence" and clearly accused the banks, for only them "have been 'saved' with taxpayers' money, without benefiting savers, but for the benefit of the major shareholders and the crazy system which created this enormous speculative bubble". Therefore, the Commission was called to submit proposals concerning the separation of the activities of general commercial banks and investment banks—a proposal clearly inspired by Roosevelt's New Deal legislation—and to launch Eurobonds and new financial instruments for investment to promote growth and development, and major infrastructure projects in particular.

The Commission and the Council do have a presence in the course of the crisis, mostly as legitimising fora for decisions taken by the state executives with the consent of the national parliaments. This political phenomenon has further weakened the position of the EU where internal decision-making largely remains with non-representative organs of the comitology structure. According to Peter Lindseth, the structural deficiencies of the Union combined with the strictly attributed powers stemming from the national constitutions themselves rendered the European integration as essentially "administrative" not constitutional in nature.[11]

As a correlation of the decision-making outside the Union, it seems that a widespread fear in relation to democratic processes is growing. This explains the growing tendency over the Irish referendum on the new fiscal pact that tightens controls on the economies of the Eurozone, held on May 31st, 2012 and resulted in the uphold of the pact by a 60,3 % popular vote. In Greece, the triggering point for the collapse of the contemporary political system was the public announcement by the socialist Prime Minister at the time Giorgos Papandreou of his will to hold a referendum (by definition a democratic recourse) on a new EU aid package and a vote of confidence to secure support of his policy for the remainder of the four-year term, set to expire in 2013. The announcement came on 31 October 2011, shortly after Eurozone leaders agreed on a second €130 billion bailout and on a 50 % write-down on Greece's debt to make it sustainable. Prime Minister's sentimental vow that "we trust citizens, we believe in their judgment, we believe in their decision" could not ease huge reaction by most political leaders in Europe, who accused him for being hypocritical and self-destructive.

The outcome was barely foreseeable at the time. The referendum was never held, the vote of confidence was given with an unprecedented condition set by the governmental MPs that Prime Minister would shortly afterwards resign, the two (originally three) major political parties in Greece agreed to proceed with a new coalition government to deal with the pressing and pending financial issues and a non-political person, former head of the Central Bank of Greece and vice-President of the European Central Bank, Loukas Papademos took over as Prime Minister in November 2011. At the exact same period, Mario Draghi, former Goldman Sachs CEO-Europe, takes over as ECB President and Mario Monti, former Goldman Sachs Consultant, is appointed Prime Minister of Italy.

[11] Lindseth (2010).

Seven months later, on 6 May 2012, elections were held in Greece, which was an explicit condition for the formation of the coalition government. The call for these elections was again greatly criticised in Europe as untimely and unnecessary. Despite open backing by the European leaders, both centre-right wing New Democracy and socialist former in power PASOK collapsed, loosing in total almost 3.3 million voters in a total of almost 6.3 million valid ballots and a total of 45 % of their respective power in comparison to the elections of 2009 (32.03 % compared to prior 77.39 %). No party got more than 20 %, whereas a significant 19 % went to minor political parties of less than 3 %. Given that this is according to the electoral law the threshold for a party to elect an MP, almost one fifth of the popular vote remained unrepresented in the Parliament. Despite the fact that the winning party collects an additional 50 seats bonus, New Democracy gained merely 108 seats in the 300-seat Parliament. Overall, elections in Greece brought the collapse of the two traditional poles of bipartisanism, which had been for the last 35 years a commonplace in Greek politics.

The electoral outcome seemed primarily the result of a negative vote, a punishment against those leading parties that greatly contributed to the appalling financial state of the country and less so as a viable and realistic vote to get away from the danger of default and the euro-exit. Given the fact that traditionally politics in Greece are not based on a culture of convergence—post election alliances are rare in domestic political history—the fluid composition of the new parliament was bound to lead to new elections, which took place on 17 June 2012. In this election, New Democracy gained 29.66 % and 129 seats and PASOK 12.28 % and 33 seats. These two parties, along with pro-Europe moderate Democratic Left (6.26 % and 17 seats) constituted the new governmental alliance to administer the remaining of the financial crisis. Due to the turn towards the powerful parties with a potential to form a government, small parties that remained outside the Parliament significantly reduced their power to 5.98 % of the popular vote.

Radical pro-Europe left [SYRIZA (*Alliance of Radical Left*)] increased its power immensely from 4.60 % (13 seats) in 2009, up to 16.78 % (52 seats) in May 2012 and 26.89 % (71 seats) in June 2012 by claiming a loosening in the austerity measures and re-negotiation with the Europeans. Its leader Tsipras, age 38, became the political symbol of resistance. The European reaction to the rise of radical left in the May elections was highly predictable: there was great concern by the heads of governments, all stock markets suffered violent losses and Tsipras was characterised by *Paris Match* as "the man who scares Europe".[12]

Despite this wide dynamics in the political arena, also motivated by great political changes in Europe, radical left in Greece is very reluctant to cooperate with other parties with similar political agendas and persistently seeks for further intrusion into the electorate by stretching political sins of the past. Despite this reluctance, they paradoxically argue for a pure proportional representation electoral system, thus loosing a great opportunity to become politically adult and turn into a genuine and credible governmental alternative. Their aspiration, however, still remains to fill in the social democratic gap left after PASOK's collapse.

[12] *Paris Match*, 17 May 2012.

The circle of disbelief towards democratic processes in Greece closed with an astonishing proposal allegedly set out by the German Chancellor Merkel that a referendum should be made in Greece to uphold people's will to stay within the Eurozone.[13] The same referendum that 7 months ago caused disproportionate reaction by the Chancellor and distressed the country. Accordingly, at the European level democratic deficit still prevails, whereas in domestic policies participatory mechanisms are treated suspiciously.

2.2 The structural issue: democracy without politics

Even when at an EU level some democratic façade was institutionally provided, it was not materialised because of the lack of political will to turn it to applied policy.[14] The effort to strengthen EU in terms of democratic processes, stemming primarily by the Lisbon Treaty, through the empowering of the European Parliament, the national powers in relation to the Union's subsidiarity issues and the forms of popular initiative was hardly an effective medicine. This is so particularly because of the structural deficiencies of the Union vis-à-vis the Member States and the hesitation towards a more substantive union, as reflected in the turmoil of the unsuccessful European Constitution. The reasons to blame are mostly the three "C"s: Competence, Convergence, Cohesion.

Competence is a key issue for European integration. The powers conferred to the Union are limited and attributed. Therefore, the Union cannot legitimately trespass its own powers and usurp Member States' competences. Although the Community clearly overrode its original scope, mostly in the aftermath of the second and third pillar, it remained primarily a financial consortium of states. The most prominent effort to overcome this threshold came with the European Defense Community Treaty signed on 27 May 1952 with the initiative by the French President René Pleven, as a counter balance to NATO. The plan, that was to include France, West Germany, Italy, and the Benelux countries, failed to obtain ratification in the French Parliament and was never effectuated due to fears for extensive concessions of national sovereignty. After almost 50 years the major step was made with the launching of the common currency. However, this step was not accompanied by the necessary tools to safeguard it, namely a strong *fiscal* union, entailing common instrumental tools such as common budgets, central controls and alike spending mechanisms. Lack of an overall policy on the competence of the Union, as a result of a fair compromise between the Union and the Member States, significantly undermined its effectiveness.

Convergence constitutes by definition the goal of an international organisation aspiring to become something more than a mere administrator of specific attributes. However, Europe never really cared to bridge the existing inequalities of its constituent Member States. In particular, what were really ignored were the differences among the Member States in relation to defence, immigration and

[13] *Spiegel*, 19 May 2012.

[14] For the issue of democracy without politics from a historical perspective see Bilakovics (2012), especially pp. 175–184.

geography. In all these aspects, Greece was the evident weak actor of the Union. Based on historic grounds of neighbouring conflicts in the region, Greece had to deal with national security issues which resulted, reasonably or not, in exorbitant defence expenditure, amounting today to almost 30 % of the overall country's debt. In turn, this caused corruption that immensely augmented unrevealed defence costs to the detriment of the national economy. Secondly, illegal immigration was, and still is, an unsolved problem because of the easy access through continental and sea gates, notably from Asia Minor and North Africa to Greece. The cost paid by the country, both financially and socially, has become today explosive because of the economic crisis. Finally, the geographic disparity of Greece, due to the great number of islands and mountains, has led the state to spend huge resources to maintain a satisfactory level of balanced growth. The situation became more vulnerable due to the fact that the country does not support heavy industry, but its gross revenue mostly revolves around provision of services, such us tourism and nautical services. Evidently, all these factors rendered Greece overall a less favoured region and cultivated disparities with the rest of Europe. Despite all these, Greece became member of the Eurozone and enjoyed as of 2001 a 7-year prosperity period before flagrantly collapsing.[15]

Cohesion is the third element upon which a union ought to be based. Despite the fact that social cohesion repeatedly becomes a key point in the EU rhetoric, true achievement of this target is very far-reaching. The European citizens may vote in the elections for the European Parliament but they do not receive equal portions of the distribution of growth within the community, due to the lack of effective mechanisms to secure development of less favoured regions. This is particularly true when one thinks of the major discrepancies in the key rates of true economy, namely unemployment, poverty and per capita personal income. Vulnerable categories of individuals have not received substantial institutional encouragement, despite ambitious declarations of Community directives in relation to equal treatment for men and women as regards access to employment, vocational training and promotion and working conditions,[16] equal treatment between persons irrespective of racial or ethnic origin,[17] non-discrimination on grounds of religion or belief, disability, age or sexual orientation[18] and equal employment opportunities for people with disabilities.[19] The instruments were there, but the policies were absent. Thus, it remained once again with the Member States to respond to inequalities culminating because of the financial crisis. European states with less structural inequalities, mainly due to their sound financial position, such as the Scandinavian

[15] For the systemic anomalies of the Greek polity and economy that led to the crisis, see Pelagidis and Mitsopoulos (2011) and Manolopoulos (2011).

[16] Council Directive 76/207 of 9 February 1976, OJ L 39 14.02.1976 p. 40, later amended by Directive 2002/73 of the European Parliament and of the Council of 23 September 2002 OJ L 269 05.10.2002 p. 15.

[17] Council Directive 2000/43 of 29 June 2000, OJ L 180, 19.07.2000 p. 22.

[18] Council Directive 2000/78 of 27 November 2000, OJ L 303, 02.12.2000 p. 16.

[19] Council Recommendation 86/379 of 24 July 1986, OJ L 225, 12.08.1986 p. 43 and Council Resolution of 17 June 1999, OJ C 186, 02.07.1999 p. 3.

states, responded relatively well; countries with long-standing inequalities suffered dramatically.

In fact, at an EU level, civil and social rights remain at the shadow of the four fundamental Union freedoms of movement (goods, capital, services and persons). Although the ECJ, today CEU, accepted, as early as late 1960's, human rights as part of the constitutional tradition of the Member States and, in turn, of the Community itself, it was not before the enactment of the Treaty of Lisbon that a proper charter of fundamental rights was set in place. The Charter of Fundamental Rights of the European Union still, however, lacks substantial persuasiveness at the Union's level because rights are still subject to the dominating dogma of economic liberalism, which today subjects Europe to an obsession of monetarism. Instead of having economy serving prosperity for the European people, it became the essential goal encapsulating all other aspects of human well-being.

2.3 The technical issue: politics without principles

Even when politics entered into the Union arena suggesting a model trespassing mere economic figures, there was not coherence in the principle underscoring these policies. Christian morality always as a mode of artificial unity among the European people was proved inadequate to keep intact a scheme that was set out from the very beginning as extremely ambitious. The launching of the common currency made things even worse from the point of view of the required coherence. As a prerequisite for the participation to the Eurozone, the Member States were asked to withdraw part of their traditional sovereignty, without receiving in return any short of warranties in relation to the future of the project. Essentially, less developed states were asked to withdraw the single mechanism that would allow competitiveness, namely a sovereign call for currency devaluation, even as a means temporarily to ease budgetary and loan pressures.[20] In Jürgen Habermas' words, the outcasting of politics from economy through European monetarism conveyed the inability of national governments to stabilise the foundations of their social legitimacy and an arm's race of demolition of the social state in order to prevent default.[21] Thus, monetarism dominated Europe as a self-evident quality stemming from a good cause.

The monetary framework for a common currency was designed in 1999.[22] However, monetary union did not convey fiscal union, thus seriously undermining the effectiveness of the project. The common currency outside a fiscal union was designed mostly with a view to anti-inflation stability which was a clear set back for

[20] Evidently, currency devaluation is not necessarily tantamount to rise of national competitiveness. Arguing in favour of participation of the Greek currency to the European Monetary System as one element in a general stabilisation policy and the fight against inflation, Kyriazis (1985) illustrated that the autonomy of economic policy is constrained by the size and openness of the economy and is not dependent on the exchange rate system. According to the author, flexible exchange rates, while not solving the balance of payments' constraint, fully transmit the shock of external disturbances to domestic inflation and often leads to an outflow of capital.

[21] Habermas (1999).

[22] See analytically Galvenius and Mercier (2011), chap. 2.

weak economies. Germany and France strongly opposed the idea of a fiscal union that would force compliance with the financial restrictions of each Member State. Instead, an allusion of low level “budgetary discipline” was preferred. The European Council, in its Resolution on the Stability and Growth Pact adopted in Amsterdam on 17 June 1997, stretched the crucial importance of securing such discipline in stage three of Economic and Monetary Union and addressed relevant guidelines to the Member States, the Commission and the Council.

On the other hand, the Union did not put in place in the very beginning mechanisms to respond to potential imbalances in the monetary union, therefore states exposed *par excellence* to external financial risks were truly vulnerable. The truth is that there were *some* provisions for excessive deficits in the Eurozone. Article 104 EC (today Article 126 of the Treaty on the Functioning of the European Union) and Council Regulation 1467/97 of 7 July 1997 provided the legislative framework for initiating procedures against Member States violating the set deficit and debt ceilings.[23] Thus, Member States ought to avoid excessive government deficits and the Commission should monitor the development of the budgetary situation and of the stock of government debt, in particular compliance with budgetary discipline, with a view to identifying gross errors. If the Commission considered that an excessive deficit existed or might occur, it addressed an opinion to the Council which, in turn, acting by a qualified majority on a recommendation from the Commission decided after an overall assessment whether an excessive deficit existed. If so, the Council made non-public recommendations to the Member State concerned with a view to bringing that situation to an end within a given period. If no compliance occurred, recommendations might become public and the Council might decide to give notice to the Member State to take, within a specified time-limit, necessary measures for the deficit reduction and request reporting on its adjustment efforts. As long as a Member State failed to comply with a decision taken, the Council might on a recommendation from the Commission by a majority of two-thirds of the votes of its members decide to apply or intensify one or more of a series of measures.[24] The excessive deficit procedure could be held in abeyance if the Member State acted in compliance with recommendations made or the notices given in the context of this very procedure.

The EU authorities had the opportunity to set out a controlled fiscal policy well before the crisis, in 2003, when excessive deficit procedures were initiated against Germany and France. The Council decided,[25] on a recommendation from the Commission, that an excessive deficit existed and recommended the German Government to bring that deficit to an end as rapidly as possible, by implementing various measures. It set 21 May 2003 as the deadline for taking the measures

[23] OJ L 209, 02.08.1997 p. 1.

[24] i.e., (a) to require the Member State to publish additional information, to be specified by the Council, before issuing bonds and securities, (b) to invite the European Investment Bank to reconsider its lending policy towards the Member State, (c) to require the Member State to make a non-interest-bearing deposit of an appropriate size with the Community until the excessive deficit had, in the view of the Council, been corrected and (d) to impose fines of an appropriate size.

[25] Council Decision 2003/89/EC of 21 January 2003 on the existence of an excessive deficit in Germany, OJ L 034, 11.02.2003 p. 16.

recommended. Since the measures taken by Germany were considered to be effective at that date, the excessive deficit procedure was implicitly held in abeyance. The Commission considered that the measures taken were inappropriate and sent a recommendation for a decision to the Council in order for it to establish that the action taken was proven to be inadequate and recommended that the Council decided to give notice to Germany to take measures to reduce its deficit by 2005 at the latest and to achieve in 2004 an annual reduction in the cyclically-adjusted balance of 0.8 % of gross domestic product ("GDP"). Almost the same procedure was followed at the same period for France.[26]

In the context of the Council, the Member States of the Eurozone on 25 November 2003 took votes on the Commission's recommendations, the required majority was not, however, achieved and the Council decided not to act, at that point, and held the excessive deficit procedures in abeyance. The Commission brought action before the ECJ against the Council seeking annulment of the decisions of the Council not to adopt the formal instruments contained in the Commission's recommendations and of the Council's conclusions to hold the excessive deficit procedure in abeyance. The Court in its decision C-27/04 of 13 July 2004,[27] despite declaring inadmissibility of the allegation for Council's non-action, annulled the Council's conclusions on the ground that it entailed *de facto* weakening of the excessive deficit procedures and the recommendations thereof by relying exclusively on unilateral commitments of the Member State concerned. The Court also annulled the decision modifying the recommendations previously adopted by the Council on the ground that this would necessitate a fresh recommendation from the Commission as the initiating organ in the excessive deficit procedure.[28]

Despite this bell by the ECJ, the Member States of the Eurozone, both disciplined and non-disciplined, refused to take any appropriate measures to prevent what should have been seen as inevitable. Instead, both President Chirac and Chancellor Schröder asked for a loosening of the Stability Pact. Ironically, then Vice-President of the European Central Bank Loucas Papademos, later Prime Minister of Greece, strongly opposed any curtailment of budgetary discipline by stating that allowing national governments to supervise the Stability Pact is like giving bar keys to an alcoholic.

In the above frame, when the financial crisis hit Europe's door through Greece, the Union was altogether unprepared to deal with a large-scale predicament.[29] It seems that Europe either undervalued the eminent dangers of forming a monetary union with such differentiated countries or hypocritically refused to address the issue in order not to raise challenges with regard to a seemingly successful project. It seemed unreasonable, and still is from many respects, how a country representing

[26] Council Decision 2003/487/EC of 3 June 2003 on the existence of an excessive deficit in France, OJ L 165, 03.07.2003 p. 29.

[27] OJ C 228, 13.07.2004 p. 16.

[28] See Dutzler and Hable (2005) and Doukas (2005).

[29] For an elaborate chronology and assessment of the European crisis, see Bastasin (2012). Also see Lynn (2010) and Wonders (2010).

less than 1 % of the world's debt and 4.3 % of Europe's debt, could so easily destabilise an economic miracle, when according to World Bank only 22 % of the nations' wealth comes from produced capital share whereas the remaining 78 % derives from intangible assets, i.e. assets that do not have a physical or financial embodiment.[30]

In 2007 the Council, following recommendation by the Commission,[31] found that statistics submitted by the Greek Government were of high quality and that the excessive deficit situation in Greece, for which investigation had been initiated 3 years ago,[32] was corrected. In the same year, the German Chancellor complimented Greece's economic growth (4.6 % in 2006 and 3 % in 2007), stating that Germany should look upon that model as a clear success story. However, obviously you cannot prevent something by not mentioning it or by praying to avoid it.

Only 8 years after the Euro launching, sovereign debt crisis hit Europe's door—an event that until then was mostly occurring in developing countries.[33] This probably explains why Europeans never thought that such a thunder could ever hit them, although the debt levels in rich countries of Europe are double than those in emerging economies and the credit ratings are, at least today, higher for the latter countries.[34] The misapprehension was strongly cultivated by the uncontrolled and profit-oriented credit rating companies, which rendered the circulation of private funding to states very easy. In a sense, Europe's inability to safeguard its currency and budgetary structure left a wide ambit for the private sector to altogether control global economy.[35] In 2008, just before the eminent crisis, the credit ratings for Greece, by all three major credit rating companies, were close to the top 3A, which in turn resulted in the very low interest rates for the 10-year Greek bonds—in fact Germany and Greece despite their visible structural incongruity enjoyed almost the same interest rates as of the year 2001. At least not thoughtful, surely risky, maybe plotted. At any rate, an overall substitution of unaccountable officials and organisations for democratic decision-making on the basis of questionable creditworthiness ratings for overheated economies.

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30 World Bank (2006), p. 4.

31 Council Decision 2007/466/EC of 5 June 2007 abrogating Decision 2004/917/EC on the existence of an excessive deficit in Greece OJ L 176, 06.07.2007 p. 21 following European Commission Recommendation IP/07/672 of 16 May 2007 for abrogation of excessive deficit procedure for Germany, Greece and Malta.

32 Council Decision 2004/917/EC of 5 July 2004 on the existence of an excessive deficit in Greece, OJ L 389, 30.12.2004 p. 25.

33 The current crisis is properly classified as international since prior crises were either established on a region (such as Russia in 1998 or Argentina in 2001) or were referring to private debts (such as the East Asia crisis of 1997-98 or the Mexican crisis in 1998, denominated as international because the debtors were basically foreigners). For an overall assessment of the cycles underlying serial debt and banking crises, see Reinhart and Rogoff (2011).

34 For example, in most of 2012 Hong Kong and Singapore rated AAA whereas, the US and France AA + , Belgium AA and Japan AA-.

35 The IMF essentially confirms this proposition along with the interconnection of markets when it comes to sovereign debt crisis in its March 2011 working paper 11/68, Arezki et al. (2011).

On 27 April 2009, after submission by the Greek government of new revised data seriously upgrading the debt and the deficit, the Council issued a decision confirming the existence of an excessive deficit in Greece. In January 2010 the European Commission issued a Report on Greek Government Deficit and Debt Statistics accusing Greek authorities in extremely offensive language for incapacity and hypocrisy, irrespective of the fact that the data had been confirmed at the time of original submission by Eurostat.[36] The irony is that the major default of the statistics of the Greek accounts in 2001, when the country acceded the Eurozone, came from a Goldman Sachs off-market swap that the Government made as a restructuring scheme in order to avoid registry of €2.8 billion in the sovereign debt. Eventually the swap was registered in the 2010 budget with the value of €5.2 billion and will cost Greece, until its expiration in 2037, €16 billion.

The reaction came belatedly and without a long vision plan. Responding to the imminent threat of Greek insolvency, Eurozone Member States, together with the International Monetary Fund (IMF), set up an *ad hoc* mechanism on 2 May 2010 to provide €110 billion of financial assistance to Greece in the form of bilateral loans. On 21 July 2011, Eurozone leaders announced a set of additional measures worth €109 billion, including a voluntary contribution from the private sector, the extension of maturities and lowering of lending rates. Apart from the above direct financing, the overall rescue package, including indirect assistance through bond purchase etc. is estimated in a total of €500 billion, almost 250 % of the GDP. As a condition for receiving the loans, Greek government declared its commitment to launch a series of strict austerity measures, including significant reductions in salaries and pensions, redundancies in public sector, curtailment of social benefits, privatisation of publicly-owned enterprises and a great number of structural reforms. Furthermore, the adherence to the austerity programme was agreed to be constantly supervised by a troika composed of representatives of the European Commission, the IMF and the European Central Bank and a European task force has been ever since settled in Greece to provide expertise on the proposed changes.[37]

From an institutional point of view, however, the European rescue mechanism for Greece clearly lacked any legal foundation on the Union's law—and still does on the level of primary EU law.[38] Article 125 of the TFEU had explicitly agreed on a no bailout clause and, therefore, with full conscience no rescue mechanism was provided. Furthermore, it lacked any prior principle upon which a rescue strategy should be built. The "ad hoc" scheme largely became an unprecedented experiment for Europe. Thus, two temporary financial backstop mechanisms were set in place.

[36] COM (2010) 1 final, dated 08.01.2010.

[37] From the domestic point of view instruments see Drossos (2012).

[38] See Ryvkin (2012) arguing that the ESM's connection to substantial EU-wide economic governance reforms may indirectly affect non-euro area states in violation of Article 136 TFEU which allows the Council to adopt measures specific to euro area states "to ensure the proper functioning of economic and monetary union" in the areas of budgetary surveillance and economic policy guidelines. Also see Antoniadis (2011), p. 167. As Drossos (2012) shrewdly put it: "Greece had the institutional instruments to take the decisions deemed necessary, but no money at all. The European Union and the Eurozone therein, had or could find the money to dump in and ideas on the conditions of its use, but no proper institutional means at all".

The European Financial Stabilisation Mechanism (EFSM), based on guarantees from the Union budget up to €60 billion,[39] and the European Financial Stability Facility (EFSF), an inter-governmental body, launched as a Luxembourg company and special purpose vehicle, providing up to €440 billion in guarantees from the Eurozone Member States in the form of bonds, notes, debt securities and other instruments. The IMF decided additional potential financial support to Eurozone countries of up to €250 billion. Apart from Greece, Ireland, Portugal and Cyprus have been granted 85, 78 and 13 billion Euros respectively in assistance from the temporary financial mechanisms and Spain €100 billion to recapitalise its insolvent banks. France is at the moment relatively better off; however, European Commission projects a country deficit of 4.1 % for 2013, 3.8 % for 2014 and 3.7 % for 2015, well above 3 % of GDP ceiling.[40]

Furthermore, a permanent financial mechanism, the Treaty on the European Stability Mechanism (ESM) was signed on 11 July 2011 and launched on 27 September 2012. ESM superseded both temporary mechanisms and has an effective lending capacity of €500 billion that will be administered by individual treaty signatories rather than European institutions. In parallel, the—proven inadequate—Council Regulation 1467/1997 was modified by Regulation 1177/2011 of 8 November 2011. According to the new Regulation "experience gained and mistakes made during the first decade of the economic and monetary union show a need for improved economic governance in the Union, which should be built on stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies". Therefore, it was stated that the common framework for economic governance needed to be enhanced, including improved budgetary surveillance, in line with the high degree of integration between Member States' economies within the Union, and particularly within the Eurozone.

Indeed, on 13 December 2011, a new set of rules on enhanced EU economic governance entered into force.[41] The plan includes stronger preventive action through a reinforced Stability and Growth Pact and deeper fiscal coordination,[42] stronger corrective

[39] Council Regulation 407/2010 of 11 May 2010, OJ L 118, 12.05.2010 p. 1.

[40] http://ec.europa.eu/europe2020/pdf/nd/csr2013_france_en.pdf (last access 30.10.2013).

[41] Regulation (EU) No. 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, 23.11.2011 p. 1; Regulation (EU) No. 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ L 306, 23.11.2011 p. 8; Regulation (EU) No. 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 306, 23.11.2011 p. 12; Regulation (EU) No. 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011 p. 25; and Council Regulation (EU) No. 1177/2011 of 8 November 2011 amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 306, 23.11.2011 p. 33.

[42] Member States are required to make significant progress towards medium-term budgetary objectives for their budgetary balances. An interest-bearing deposit of 0.2 % of GDP is prescribed on non-compliant Eurozone countries.

action through a reinforced Pact,[43] minimum requirements for national budgetary frameworks,[44] and prevention and correction of macroeconomic and competitiveness imbalances within the Eurozone.[45] In parallel, until 31 December 2013, EU Member States must bring into force the provisions necessary to comply with Council Directive 2011/85/EU of 8 November 2011, which set out very strict requirements for budgetary frameworks in relation to accounting and statistics, forecasts, numerical fiscal rules, medium-term budgetary frameworks and transparency of general government finances and rules of comprehensive scope of budgetary frameworks.[46]

Finally, the multilateral "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union" (TSCG)[47] was signed between 25 EU Member States on 2 March 2012 in Brussels, in the margins of the European Council, "desiring to promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area" and "bearing in mind that the need for governments to maintain sound and sustainable public finances and to prevent a general government deficit becoming excessive is of essential importance to safeguard the stability of the euro area as a whole, and accordingly, requires the introduction of specific rules, including a 'balanced budget rule' and an automatic mechanism to take corrective action". The Treaty entered into force on 1 January 2013 for the 16 states which deposited their instrument of ratification. It will also apply to the other non-Eurozone contracting parties as from the first day of the month following the deposit of their respective instrument of ratification.

Following the above Treaty, the parties have agreed to a balanced or in surplus budgetary position of the general government, in the sense that the annual structural balance must be at its country-specific medium-term objective, as defined in the revised Stability and Growth Pact, with a lower limit of a structural deficit of 0,5 % of the GDP at market prices.[48] According to the Treaty, the ratio of the general

[43] The launch of an Excessive Deficit Procedure can therefore result from government debt developments as well as from government deficit. Member States with debt in excess of 60 % of GDP should reduce their debt in line with a numerical benchmark. A non-interest bearing deposit of 0.2 % of GDP may be requested from a Eurozone country which is placed in Excessive Deficit Procedure on the basis of its deficit or its debt. Failure to comply with recommendations for corrective action will result in a fine.

[44] Member States should ensure that their fiscal frameworks are in line with minimum quality standards and cover all administrative levels. National fiscal planning should adopt a multi-annual perspective, so as to attain the medium-term budgetary objectives. Numerical fiscal rules should also promote compliance with the Treaty reference values for deficit and debt.

[45] The system relies on an alert system that uses a scoreboard of indicators and in-depth country studies, strict rules in the form of a new Excessive Imbalance Procedure and better enforcement in the form of financial sanctions for Member States which do not follow up on recommendations.

[46] OJ L 306, 23.11.2011 p. 41.

[47] Full text in http://european-council.europa.eu/eurozone-governance/treaty-on-stability (last access 30.10.2013).

[48] The Contracting Parties may temporarily deviate from their respective medium-term objective or the adjustment path towards it only in exceptional strictly defined circumstances in case of "an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term", Article 3 para. 3(b).

government debt to GDP at market prices must be in principle significantly below 60 %. In the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism is provided to be triggered automatically, including the obligation of the Contracting Party concerned to implement measures to correct the deviations over a defined period of time.[49]

This Treaty provided for ratification by the Contracting Parties in accordance with their respective constitutional requirements,[50] whereas its substantive rules ought to be incorporated into the domestic law of the Member States at the latest 1 year afterwards "through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes".[51] Accordingly, the existing German model of constitutional debt and deficit ceilings shall be transferred to the other states of the EU as well.[52]

On the basis of the above, it seems that Europe in the aftermath of the crisis is much more equipped to deal with immense lending problems of the Member States. Although the experiment failed, since Greece's recession in 2012 officially came up to 7,1 % GDP[53] almost passed away, it provoked a new perception of how financial crises should be treated. Counter to the econometric perception that there is positive relation between democracy and economic performance, liberal-leaning Nobel prizewinner economist Paul Krugman stated that "Greece should be seen as a cautionary tale about the dangers of trying to reduce deficits too quickly, while the economy is still deeply depressed".[54] In order to establish a new perception of risk management, the Union departed from explicit rules and applied measures not founded upon any European legislation. The principles already enshrined in European law were deemed to be inadequate and -once again—positivism and the law by rules, both to be blamed for the Weimar collapse in the eyes of the Europeans, evaporated. The task to prevent domino collapse prevailed in a utilitarian way of thinking. Greece, Ireland and Portugal might today have had collapsed without the rescue bailout; the same would most probably have had happened, with the German banks, which had obtained until December 2009 a total portfolio of €704 billion worth of bonds from these countries, as well as from Italy and Spain, well above their own overall capital. In essence, as *Bloomberg* points out, due to the interconnection of European economies, financial support to a

[49] Article 3 para. 1.

[50] Article 14 para. 1.

[51] Article 3 para. 2.

[52] Articles 108 and 115 of the Basic Law. See Ryzewski (2011), I. Kemmler (2009) *Die öffentliche Verwaltung* 549, Lenz (2009) and Tappe (2009).

[53] The Hellenic Statistical Authority officially announced that the Gross Domestic Product (GDP) in the 1st quarter of 2012 decreased by 6.5 % in comparison with the 1st quarter of 2011, compared with the original estimate of 6.2 % decrease. Whereas, according to the same source, available non-seasonally-adjusted data indicate that, in the 4th quarter of 2012, the GDP decreased by 5.7 % in comparison with the 4th quarter of 2011, compared with a 6.0 % decrease estimate.

[54] Crugman (2012a), What Greece Means.

country is tantamount to support to all others of the Eurozone.[55] This is the major difference with the US where no interdependence occurs in principle, thus Wall Street rescue after the Lehman Brothers fall was more easily manageable.

What is illustrated presumably from the above analysis is that with the launching of monetary union there was a lack of political will to provide the institutional means effectively to deal with the prospect, and later reality of a large scale crisis. The clear choice of the framers of the Union and the Eurozone for liberalism both at the level of rights and of economy was not properly protected. In particular, it seems that political leadership in Europe arrogantly ignored, or at least underestimated a fundamental premise of economy, *i.e.* that it tends to become an autonomous actor and trespass regulation and institutions. Although money became a constitutional project of huge importance in Europe, through the clear targeting towards monetarism, traditional minimal banking regulation of assets (reserves and productive assets) versus liabilities (deposits and equity) was proved barely sufficient. The emergence of largely unregulated new market products, such as credit default swaps (CDS), investment mandates, hedge funds or derivatives and the spectacular default of the seemingly uncompromised no bailout clause are indicative of this independent move of economy and eventually of its dominance over policy. At the end of the day, what has been proved is that economy does not require democracy. In fact, as statistics indicate, economic growth in countries without political freedom is much higher than growth in countries where rights are respected.[56]

This is in a few words the story of the prevalence of economy over politics, the turn from political liberalism to mere economic liberalism, so as to verify Niall Ferguson's assumption that in capitalism wealth mutates in a way that democracy may eliminate growth and a financial crisis may undermine democracy: "Financial history is a roller-coaster ride of ups and downs, bubbles and busts, manias and panics, shocks and crushes… so much about the future lies in the realm of uncertainty, as opposed to calculable risk."[57] Obviously, the call for more democratisation and timely responsiveness of the markets seems incumbent; it is economy than needs to be in conformity with democracy—not the opposite.

3 The implications of economic default

3.1 Political impact

Crisis left politics in Europe sharply divided. On the one hand, there is the *stability* priority, founded upon traditional liberal approach praying for financial discipline,

[55] http://www.bloomberg.com/news/2012-05-23/merkel-should-know-her-country-has-been-bailed-out-too.html (last access 30.10.2013).

[56] See Hassett (2007).

[57] Ferguson (2009), 342–343. In a broader Marxist perspective, see the prophetic approach by Poulatzas (1975), focusing upon the concept of "authoritarian statism", according to which there is a general movement of capitalist states towards authoritarianism through coercive and state surveillance to safeguard the prevailing notion of the free economy.

entailing severe austerity measures without any concessions towards wider social state, particularly for those countries with immense deficit and loans, and dogmatically opposing inflation. On the other hand, there is the *growth* priority, an effectuation of social liberalism reshaped in a new social economic progressive politics narrative, emphasising upon partial redistribution of wealth, both among and within the states, arguing in favour of ease of strict measures of financial discipline, of longer adaptation periods for endangered states and of European centered solutions, such as the Eurobonds and standing against forced austerity in depressed economies. Certain variables that cast light primarily upon the rudiments of western economies, such as the emerging of the discussion on moral and responsible capitalism, part of the rhetoric of the UK Prime Minister David Cameron,[58] seem to be easily accommodated within this basic distinction.

Although the above rough sketch seems rather simplistic, it clearly reflects the essence of the new political dialectics in Europe. This is true not only in the case of close to default countries, such as Greece, where discipline-oriented political parties suffered huge losses, but also in relatively healthy states. In French presidential election, as well as in the regional elections in Italy, dominating pro-stability political parties lost a significant portion of their power. Even in Germany, the governing Christian Democratic Union (CDU) suffered an emphatic loss in the most populated Land, Nord Rhein Westfallen, in May 2012, albeit ralergely recovering in the September 12th, 2013 federal elections. In the Netherlands, an early general election took place on 12 September 2012 following the resignation of Prime Minister Mark Rutte, after the Party for Freedom (PVV), which supported the government coalition, refused to provide backing for the austerity measures previewed. Delegitimation of traditional political forces in Greece and Italy resulted in non-political governments, led by experts, called upon to take over leadership and escape the crisis.

"Growth" became the key word in Europe. What is needed now is a new plan, less rigid but more effective; in essence, a new Europe. People from all over the continent turned to the political parties speaking of a new Europe, such as the new French President François Hollande, whose socialist party also had an emphatic victory in the parliamentary elections of 17 June 2012, although it is an implicit understanding that this might prove an illusion under the circumstances. It suffices that hope is vivid.

The division between growth and stability, as a political key element, trespasses national boundaries. Political leaders from all European states as well as Union's office holders become partisan in all European elections. Chancellor Merkel made extensive statements in favour of then president and presidential candidate Nicolas Sarcozy in France, of the affirmative on the Irish referendum and of the pro-European political parties in favour of financial stability in Greece.[59] In the Greek

[58] Based on ethical economic growth, responsible globalisation and wider responsibilities of entrepreneurs; see an overview on the issue in Cormack and Goodman (2009).

[59] Three days before the second 2012 national elections in Greece, *Financial Times Germany* of 14 June 2012 called Greeks—using Greek language - to cast their vote on Sunday in favour of conservative New Democracy with the title "Resist to the Demagogue": "Resist to demagogy of Alexis Tsipras and SYRIZA. Do not trust their promises that the denouncement of the loan agreements is possible without

elections, the same explicit stance was taken also by the IMF managing Director Christine Lagarde, the President of the European Council Herman Van Rompuy and the President of the European Commission José Manuel Barroso. For the same reason, one may reasonably speculate that the same will also happen in the future before national elections in all endangered countries. The Union and the powerful European states seem to have earned their right to have a word in domestic politics through their legitimate interest to secure the money provided through the rescue mechanisms. Financial dependence seems to justify interference with elections in a sovereign state. However, both in the case of Greece and in the case of France, external interventions seem to have had the opposite result. People at large reacted negatively to statements coming from abroad, even expressed in sensible terms; they were upset and refused to receive instructions.

Under the circumstances, it is easily explicable how alternative political forces came out stronger in Europe. In 2010 the Pirate Parties International, mobilized in Sweden, was established in Brussels with a view to help establish, to support and promote, and to maintain communication and co-operation between pirate parties around the world. Its ideology seems to be focusing on digital revolution within information society and the mobilisation of people: technology/resources/skills.[60] In Germany, the highly successful Pirate Party (*Piratenpartei Deutschland*), founded in 2006, managed to gain an average of 8 % of the popular vote and entered four German *Länder* parliaments (Berlin, North Rhine-Westphalia, Saarland and Schleswig–Holstein). Outside the Pirates network, popular comedian Beppe Grillo's *Movimento 5 Stelle* managed to achieve an astonishing 23.8 % of national vote and 54 seats at the February 2013 parliamentary elections in Italy. The dilution of the traditional political forces in the country resulted in a total failure to form a coalition government and a correlating major political crisis with the resignation of Pier Luigi Bersani, leader of Partito Democratico, after both candidates he had backed for presidency failed to get enough votes and the re-election of 87-year-old Giorgio Napolitano as President for a second term in office.

Seeking the alternative has nevertheless its aberration: extremism and nationalism. Again the paradigm of Weimar seems to provide the historical justification. Easy populist rhetoric, blaming the "others", either the foreign powerful states or impersonal "markets" or the immigrants (but never own over-consumption habits), has led to increase of the popularity of extreme right and extreme left. In France *Front National* Marine Le Pen gained a significant 17,90 % in the first round of the presidential elections and 2 seats in the French Parliament in June 2012 elections and in Greece extreme nationalists *Golden Dawn* gained 6.97 and 6.92 % (corresponding to 21 and 18 seats) in May and in June 2012 elections respectively. Apart from the eminent danger of extremities becoming more powerful, it is readily

Footnote 59 continued
consequences. Your country finally needs a functioning state. For your smooth governance we recommend Nea Dimocratia, even though the recommendation is half-hearted…The best option for your country would be a coalition government with Antonis Samaras as leader and not Alexis Tsipras".

[60] Today there are as many as 69 registered Pirate Parties around the world. Information drawn from the official http://www.pp-international.net/ (last access 30.10.2013).

apparent that a new type of populism arises in Europe as a result of the distrust against the ideologically moderate political parties.

3.2 Social impact

The western world seems today to lose its competitive advantages against the developing states. This is true not only in relation to the growth figures, which spectacularly favour the latter,[61] but also in terms of prosperity and social cohesion. The Arab spring and the Latin American reformists, albeit not radically effective in relation to the aspired redistribution of wealth, seem to transfer dynamic social mobilisation outside Europe. Not unexpectedly, in the 2012 Happy Planet Index of the British New Economics Foundation, among the top 25 happiest people Albania is the only European state, ranked 17th.[62]

In this context, the political discussion of the European crisis primarily affects the most salient feature of the social arena, *i.e.* labour market. The discussion on reduction of the labour costs, especially for endangered countries, reasonably triggered an increasing social tension that resulted in anxiety, riots and general public discomfort. The stability proponents persistently argued in favour of serious horizontal cuts that would embrace not only salaries in general but mostly minimum wages. The motto is that in this way competitiveness of the states would rise and investments might be attracted. The argument may sound reasonable in the context of orthodox liberal economics. However, it is not beyond challenge. The systemic counter argument reflects the agony as to how far one might go in order to secure competitiveness (largely following a China-type low wage producer model), and eventually raises the question whether there is a single widely acceptable meaning of competitiveness. Concessions as to human well-being are of course foreseeable, but the threshold is by definition blurred. On the other hand, in term of the substance of the argument on wage cuts, social economists would raise the issues of increase of inequalities, and in turn of increase of wealth discrepancies, the shift of the labour employment towards high skill workers and the potential rise of unemployment of vulnerable categories, such as youth, women, low-level workers, and altogether a reduction in aggregate employment. Crudely put, the dilemma seems to be between inequality and full employment, the US labour model in broad terms, as opposed to equality and unemployment, which has been historically the European labour predilection.

[61] According to OECD forecast (*Economic Outlook*, Volume 2012, Issue 1, No. 91), the highest nominal GDP growth for 2013 is expected up to 13.4 in Turkey, 8.7 in Chile and 8.3 in Mexico, whereas in Germany it is 3.9 % and in France it is 2.6 %. This transfer of wealth is also reflected in the economic literature, e.g. Frankel (2012), provides concrete paradigms of small scale reforms that should be drawn from small countries (both developed and developing), such as, among others, education reforms (Korea), forced saving and traffic congestion pricing (Singapore), standing armies foreswearing (Costa Rica and Mauritius), oil option hedging and conditional cash transfers (Mexico), structural budget rules (Chile) and "Pula Fund" (long-term investment portfolio with the aim of preserving part of the income from diamond exports for future generations, Botswana).

[62] Costa Rica, Vietnam, Colombia, Belize and El Salvador are the top 5 countries in the list, whereas Greece ranks 83rd and the US 105th, see Abdallah et al. (2012). The major variables applied are experienced well-being, life expectancy and ecological footprint.

The above, rather schematic, trade off is both evidently problematic and largely unsatisfactory. Especially in the case of Europe, the mixture becomes all the more explosive. This is so because of the inherent differences in the labour markets of the Member States and the uneven distribution of product wealth. Although pluralism and transnationalism seem to interconnect economies, the structure and overall efficiency of a labour market still remains at the discretion of each state. Discrepancies, therefore, cannot be treated on a higher level and that affects not only the labour product but also the attitude of the working forces and of societies altogether. It is not, accordingly, inexplicable how the social tension caused by the radical regulatory intervention in labour rights exercises a domino influence upon the psychology and social behaviour of people at large. Popular, student-driven, riots in Spain and Greece and counter reaction in northern Europe are illuminating examples.

3.3 Psychological impact

The psychological impact of the financial crisis revolves around two antithetical poles, namely stereotyping and nationalism. With the exception of a handful of—mainly left oriented—political figures of the past and representatives of the cultural elite,[63] people at large in countries which have not greatly suffered from the crisis and have been called to contribute to rescue mechanisms, develop more or less stereotyping attitudes against people of profiting countries, mostly the unproductive PIGS: feckless Portuguese, useless Italians, lazy Greeks. This type of stereotyping is, nevertheless, not only evidently dangerous in terms of the community mentality, but also oversimplistic, self-inflicted and patently mistaken.[64]

For example, OECD data show that in 2010, Greeks worked on average 2,109 h a year against an OECD average of 1,749 (690 h more per year than the average German, 555 more than the average French and 462 more than the average British). In fact the only OECD country where people work more hours is Korea.[65] The paid leave entitlement in Greece is on average 23 days, lower than the UK's minimum 28 and Germany's 30. At the same time, public sector in Greece is not statistically above the European average in the overall working structure, as otherwise intimated—this was the ground for the persistent demand of the troika for extensive redundancies in the broader public domain.

On the other hand, according to OECD, public expenditure on old-age and survivors benefits in Greece was, at the peak of its growth in 2007, 12 % of the GDP as

[63] Indicatively, the collective movement *We are all Greeks* culminating in a special banner raise event in cities around the world on 18 February 2012 and the "Support Greece" petition signed by 22 internationally renowned Nobel prize winners in various fields of science and technology and addressed to Martin Schulz, President of the European Parliament, and the presidents of the European Council and the European Commission (*Science*, 25 May 2012, p. 978). A most extraordinary moment of solidarity was given by German Nobel Laureate for Literature, Günter Grass, with the publication of the poem entitled "Europe's Shame" in *Süddeutsche Zeitung* of 26 May 2012, blaming Europe for its attitude towards Greece.

[64] See Crugman (2012b), Whips, Scourges, and Cats and Crugman (2010).

[65] OECD, 10.1787/annual-work-table-2011-1-en (last access 30.10.2013).

against an OECD-34 of 7,4 %, (10.8 % in Portugal, 12.8 % in France, 12.7 % in Austria and 12 % in Germany).[66] The overall government social expenditure amounted in Greece for the same year in 21.3 % of the GDP as against an OECD-total of 19.3 % (22.5 % in Portugal, 28,4 % in France, 26.4 % in Austria and 25.2 % in Germany).[67] In 2009, the initial salary of upper secondary education teachers in Greece amounted to €27,951 Euros per year as against an EU-21 average of €33,553 Euros (indicatively, in Portugal €34,296, in Ireland €36,433, in France €35,743 and in Germany €55,743 Euros).[68] However, the running expenditure (cost of state administration) in Greece is about 6,5 % of GDP, compared to an EU average of 3 %.

Still, irrespective of the working habits and the expenditure levels, public social services, such as health and education, remain largely ineffective in Greece. For the same expenditure, Greece provides public services that are wasteful and much inferior to other countries. At any rate, this is due to the shape and the systemic anomalies of the Greek labour market and not due to the idiosyncrasies of the people. This is why there is currently a huge effort for administrative reform in the country, with the expert assistance of EU task force, in order to combat the perpetual inactivity of the national governments in the past.

The counter effect of stereotyping is nationalism. People in endangered countries do not feel that they deserve to suffer such negative attitude and, eventually, such great loss of their quality of life. They do not feel guilty for the crisis in the same way that they feel that the crisis came randomly upon their countries and upon themselves without anyone, expert or politician, within the country or abroad, having timely given proper warning. The imminent reaction was reluctance to proceed with the necessary structural reforms, uprising against measures lowering personal incomes and reducing social benefits and, eventually, turn to nationalism as a defence against external "conspiracies". Predictably, long forgotten diplomatic claims, such as wartime reparations, entered the political agenda as a means to satisfy restless public opinion.

A foreseeable consequence of nationalism and populism has been a developing messianism. People have entirely lost confidence towards realists, because it is exactly they who failed to prevent the crisis and now fail to persuade people that they are able to provide a vision for the future. As a result, the fundamental protestant dogma entailing that the devil we know is better than the devil we do not seems to be overturned. People seem to expect something entirely new and radical and are, therefore, akin to idealistic speculations raised. They expect a new messianic project to redraft their lives.

4 Epilogue

It is clear that we encounter a transitional political era and a great constitutional moment. The Constitution, as part of the rule of law and a major institutional tool

[66] See Adema and Ladaique (2009).

[67] OECD, 10.1787/20743904-table1.

[68] OECD, 10.1787/teachsal-table-en.

for political establishment, suffered significant devaluation. It was unable to prevent losses in relation to the rule of law and the social state. This phenomenon raised the call for the politics to come back to the front. The call for growth seems now to counterbalance the stability obsession. Monetarism, as the prevailing notion of the 1980's in Europe that outcasted Keynes and his deeply European attributes on income-expenditure models,[69] seems to concede to a less formalistic and economy-oriented institutionalism. The globality and the extent of the crisis smashed the myth that in developed economies merely financial instruments—banks, bonds, stocks, securities, and insurance—may secure human happiness.

It is, therefore, clear that Europe currently stands before an inevitable crossroad: it either moves forward with a costly long-vision political plan that requires further solidarity, or it remains stagnant and renders economy a competitive playfield for all European countries. In this context, exit of Greece or Spain from the Eurozone, schematically referred to as the "Grexit" or "Spexit", might produce unforeseeable results. Short-run benefits for the competitiveness of country's economy, might well trigger, not contamination as one might think, but jealousy from other countries and eventual dissolution of the Union. The situation might become more complicated because of the nationalistic or euro-sceptic tendencies around Europe, which have been formalised through the announcement of independence referenda in Scotland and Catalonia for 2014 and referendum on UK's future in Europe promised by Prime Minister David Cameron if he is re-elected in office.

We are, therefore, in search of a new somewhat messianic project since the original European deal comes to an end. It is true that messianism gave rise to oppressing regimes that caused exorbitant damage to humanity, but the establishment of US itself was somehow a messianic project that went far beyond the mandate of the founding fathers of the nation. What is in demand is a fresh post-neo-liberalism look, an "unconventional adaptation", as Bruce Akkerman put it.[70] This New Deal or new Marshal Plan or new Bretton Woods project must include rules to set up a global system of institutions and procedures to regulate not only the international monetary system and the commercial/financial relations but also the goals for sustainable social growth. But this should occur neither outside democratic legitimacy and accountability, nor by total sacrifice of post-war social democracy, which is the most astonishing achievement of Europe. A system that would embrace the fundamentals of good governance and the re-moralisation of international trade law, as a forum promoting collective good as opposed to an aggregate of individual interests[71] and would go back to a more conventional concept of property, more of a John Lock idea based on labour and production as opposed to intangible funds.[72] It

[69] Kenway (1994). Also see Congdon (2007), pp. 235–276, where the author re-reads Keynesian and post-Keynesian writings from a different angle and argues that monetary principles greatly contributed to the stability in the last quarter of the twentieth century in Europe. In the US, the most powerful contemporary voice against modern monetarism comes from James (2011).

[70] Ackerman (1999).

[71] See solid argumentation in Lang (2011), esp. pp. 345–352.

[72] Locke (1690): "The measure of property nature has well set by the extent of men's labour and the conveniences of life: no man's labour could subdue, or appropriate all…" (Chap. 5, sec. 36).

remains to be seen whether, like mid-war crisis in David Kennedy's words,[73] the current depression will prove both a disaster and an opportunity for Europe.

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